

# PERFORMANCE ANALYSIS OF BLUE-CHIP COMPANIES THROUGH STOCK ANALYSIS

Dr. Namrataa Kapoor Kohli, Associate Professor, Daly College of Business Management,  
Indore

## Abstract

Blue-Chip stock are the shares which provides an opportunity to earn high returns on the investment. The price of such shares is less volatile hence, movement in the price of the stock is easily predictable. The companies holding blue-chip stock are market leaders in their respective industry as they have already proven their positioning & business models in the market, which makes it difficult for their competitors to encroach on their market share. The prices of the stock in Blue-Chip companies is comparatively high and vigorous trading in Blue-chip companies' stock is profitable due to consistent return on investments. The purpose of this study was to explore the concept of Blue-Chip companies' stock and to analyse the performance of top 10 companies on certain financial performance criteria's, and the data used for this purpose was secondary data collected through various official websites. Further, it can be concluded that it is worth investing in Blue-Chip Companies stock if an investor is looking forward to long term investment with constant growth & returns. The drive of selecting the blue-chip stocks of market leaders was to analyse and relate their positions with existing performance in the market in respect to their enterprise value, profitability and low debt.

**Keywords:** Blue-Chip Companies, Market Capitalization, Earnings per Share, Net Profit, Return on Equity & Stock Analysis

The term 'Blue-Chip' came from the game poker where the blue gambling chips holds the highest value. Blue-Chip stocks are shares of the well-established companies having sound financial performance with the capabilities to undergo tough market conditions and give constant good returns. The value of Blue-Chip stock is generally high as the company stands with good reputation and as leader in their respective industry. Such stocks are referred to be as high-quality stocks instead of high-priced stocks as they deliver superior returns in long run to the investor. Blue-Chip yield consistent dividends and the future price growth is more certain, even at times when index is falling, their stock price is more stable. Blue-chip companies are the best dividend players and it's difficult to beat them in their game. The price of blue-chip stock fluctuates but at a lower rate. Hence, blue-chip stocks are safest investment as their future progress is easily predictable.

Several parameters on the basis of which identify the blue-chip stocks are given in **figure 1**

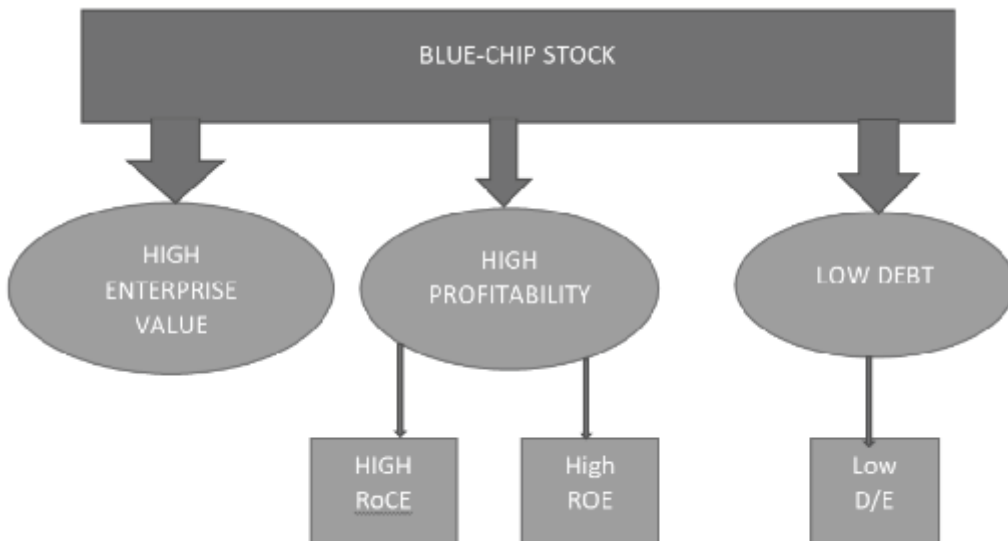


Figure 1 : Blue-Chip Stocks

### Types of Blue-Chip Stocks:

The blue-chip stocks can be classified into below categories:

**Growth Stock:** Blue-Chip companies with growth stocks usually have high earnings which is further ploughed back in the company for business growth. In such companies' dividends are paid less to the shareholders but the interest of the shareholder doesn't get affected as company is flourishing with time.

**Value Stock:** The actual worth of such stocks of blue-chip companies is comparatively higher than its current stock price. Such stocks of blue-chip companies are undervalued in the market but are being considered to be as potential stock.

**Cyclical Stock:** Cyclical stocks are those stocks whose stock price value depends upon the functioning and the condition of the economy. If the economy is falling down the price of the stock will decrease and if the economy is at boom, the price of the stocks will increase.

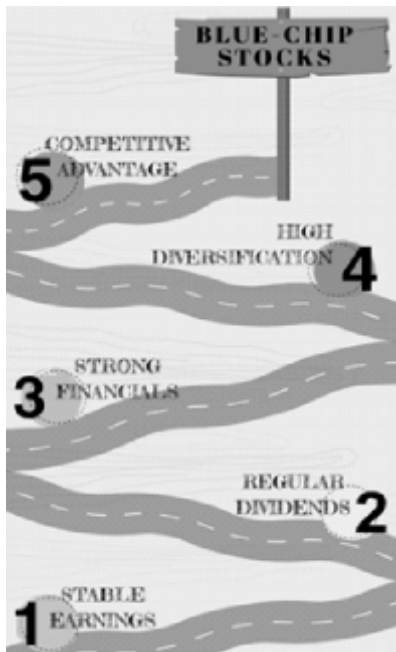
**Income Stock:** Blue-Chip companies with Income stocks are generally well-established companies with high rate of earnings. Such companies' pay high dividends to their investors due to which the stocks of the company are less volatile in the market.

### Need/benefit of the Blue-chip Stocks:

**Stable Earnings:** The prime objective of investor is to get good returns on their investments and i.e. exactly being offered in case of blue-chip companies. Blue chip companies provide steady earnings over a certain period of time which makes them more reliable and trust worthy companies. Even at the plunging stage of economy, investors need not worry about their investments in blue chip stocks.

**Regular Dividends:** Blue-chip companies maintain a consistent trend in paying dividend to its shareholders. Blue-chip companies do not have constant increase in prices, but cover it up with uninterrupted dividend pay-outs which aids capital appreciation in the long run.

**Strong Financials:** Blue-Chip companies have an understanding and convincing vision for the future of their company. The efficient operating cycles, strong financial ratios support sturdy financial standing contributing to the continuous growth of the company. Due to the strong financials and liquidity position stocks remains to be secure and steady hence, they don't undergo market fluctuations.



**Figure 2: Need/ benefit of the Blue-chip Stocks**

**High Diversification:** The stock value of Blue-Chip companies carries very nominal risk as they are the most stable ones. Such stocks reduce your portfolio risk. Blue-Chip companies have diversified business interests and sources of revenue, which safeguard them from operational hindrances.

**Competitive Advantage:** Blue-Chip stocks maintain a profitable history which makes them market leaders with increased goodwill provides a competitive edge to them over the other players in their industry, as holding their stock is considered to be prestigious. Such companies are cost efficient and holds a high value, which in turn helps them in selling their products regardless of the economic scenario. **Refer Figure 2**

### **Review of Literature**

Kalyan, Nalla. (2017), This paper is based on the study on investment in Mutual funds of Blue-chip stocks as part of a conservative investment strategy. The paper highlighted the ways to identify risk and returns involved in the blue-chip fund. The study was done on State Bank of India Mutual Fund (SBI MF) which is one of the largest mutual funds in the country with an investor base of over 5.4 million. With over 20 years of rich experience in fund management, State Bank of India Mutual Fund brings forward its expertise in consistently delivering value to its investors. The target of this paper is to evaluate the performance of State Bank of India blue chip fund comparing with a benchmark for the period of 2014-2016.

**Hamsalakshmi and Manickam (2004)** has made “A study on financial performance analysis of selected software companies” in which the focus was to examine the structure of liquidity position, leverage and profitability. The facts of the study revealed a favourable liquidity position and working capital position and has also exposed that the companies rely more on internal financing and the overall profitability has been increasing at a moderate rate.

**Kuldip Kaur (1998)** studied “Size, Growth and Profitability of Firms in India - An Empirical Investigation”. In this context, the studies of various facts of 235 firms of India have been undertaken, covering the period from 1970-71 to 1980-90. Growth pattern of the firms showed that majority of the firms recorded growth rate from 10 to 20 per cent. Two measures of profitability have been used in the study, the profitability margin (operating profit as percentage of net sales) and the profitability rate (gross profit as percentage of net sales). However, the analysis in case of Indian firms showed that there was no systematic tendency for average profitability to increase / decrease as the size of the firm changed.

### Objectives of the Study

To focus on analysis of top ten blue chip companies in Indian context in terms of market capitalization, Net Profit, Earnings per share and Return on Equity.

### Research Methodology

The data for the present study was secondary in nature. Secondary data related to the performance of the blue-chip companies have been collected from the stock exchange websites.

### Tools for Analysis

The following are the tools that have been used in this research:

- (a) Market Capitalization
- (b) Earnings per share
- (c) Net Profit
- (d) Return on Equity

**Table 1: Market Capitalization of top ten blue Chip Companies as on 28 Nov.19 at 3.05 p.m.**

| S. No. | Security Code | Company                               | Market Capitalization |
|--------|---------------|---------------------------------------|-----------------------|
| 1.     | 500325        | RELIANCE INDUSTRIES LTD.              | 995089.48 Cr          |
| 2.     | 532540        | TATA CONSULTANCY SERVICES LTD.        | 770533.44 Cr          |
| 3.     | 500180        | HDFC BANK LTD.                        | 699944.37Cr           |
| 4.     | 500696        | HINDUSTAN UNILEVER LTD.               | 453030.22 Cr          |
| 5.     | 500010        | HOUSING DEVELOPMENT FINANCE CORP.LTD. | 403563.68 Cr          |
| 6.     | 532174        | ICICI BANK LTD.                       | 326938.16 Cr          |
| 7.     | 500247        | KOTAK MAHINDRA BANK LTD.              | 309213.58 Cr          |
| 8.     | 500112        | STATE BANK OF INDIA                   | 306649.65 Cr          |
| 9.     | 500875        | ITC LTD.                              | 303484.36 Cr          |
| 10.    | 500209        | INFOSYS LTD                           | 296409.88 Cr          |

Source: <https://www.bseindia.com/markets/equity/EQReports/TopMarketCapitalization.aspx>

**Table 2: Net Profit, EPS & ROE of the Ten Blue-chip Companies**

| S. No. | Company                                | NET PROFIT   | EPS          | ROE          |
|--------|--|--------------|--------------|--------------|
| 1      | RELIANCE INDUSTRIES LTD.               | 35,163.00 Cr | <b>57.14</b> | <b>8.66</b>  |
| 2      | TATA CONSULTANCY SERVICES LTD.         | 30,065.00 Cr | <b>87.04</b> | <b>38.03</b> |
| 3      | HDFC BANK LTD.                         | 21,078.17 Cr | <b>42.72</b> | <b>15.01</b> |
| 4      | HINDUSTAN UNILEVER LTD.                | 6,036.00 Cr  | <b>30.42</b> | <b>83.95</b> |
| 5      | HOUSING DEVELOPMENT FINANCE CORP. LTD. | 9,632.46 Cr  | <b>55.93</b> | <b>13.58</b> |
| 6      | ICICI BANK LTD.                        | 3,363.30 Cr  | 7.95         | 4.64         |
| 7      | KOTAK MAHINDRA BANK LTD.               | 4,865.33 Cr  | <b>30.28</b> | <b>12.60</b> |
| 8      | STATE BANK OF INDIA                    | 862.23 Cr    | <b>11.34</b> | -            |
| 9      | ITC LTD.                               | 12,464.32 Cr | <b>11.30</b> | <b>24.34</b> |
| 10     | INFOSYS LTD                            | 14,702.00 Cr | <b>34.56</b> | <b>25.17</b> |

Source: <https://www.moneycontrol.com/stocks/marketinfo/netprofit/bse/index.html>

Source: <https://www.bseindia.com/stock-share-price/infosys-ltd/infy/500209/>

### Research and Findings

- 1) Based on the above data available, it can be concluded that Reliance Industries Limited has the highest Market Capitalization of Rs 995089.48 crores as on 28<sup>th</sup> Nov, 2019.
- 2) Net profit for Reliance Industries Limited also stands highest among top 10 companies.
- 3) The studies reveal that Tata Consultancy Services Limited ranks first in terms of EPS.
- 4) On the basis of Return on Equity (ROE) Hindustan Unilever Limited is the leading one.

### Conclusion

Most mechanized and matured companies with a stable debt equity ratio, sturdy financial position, excellent management staff, interest coverage ratio, brand image, consistent dividend pay-outs, stable growth rate and increased goodwill has been termed as Blue-Chip companies. Blue -Chip companies' stocks are preferred for the long-term investments and not for the short-term investments, as in long run it creates high value due to consistent growth. Even the market leaders suggest to have the proportion of blue-chip company stock in the portfolio so that recovery of the market distress can be done easily at the investor end.

Blue-Chip companies have already reached to the peak of their performance in their respective sectors therefore, investment in equities of these companies carries low growth potential, together with low returns when compared to companies that have a high growth potential.

### Limitation

Limited tools have been used to analyse the performance of the companies and also data related to only top 10 companies have been analysed.

### References

- Altman, E. I. (1968). Financial ratios, discriminant analysis and the prediction of corporate bankruptcy. *The journal of finance*, 23(4), 589-609.
- Hamsalakshmi, R., & Manicham, M. (2005). Financial performance analysis of selected software companies. *Finance India*, 19(3), 915.
- Kalyan, N. B., & Subramanyam, P. (2017). A Study on Performance of SBI Blue Chip Fund at

SBI Mutual Funds in India.

- Putra, I. W. K., & Dana, I. M. (2014). Pengaruh Kondisi Ekonomi dan Kinerja Keuangan Terhadap Return Saham Perusahaan Food and Beverages di Bursa Efek Indonesia. *E-Jurnal Manajemen*, 3(11).
- Okičić, J., & Horvath, S. R. (2015). The Identification of Blue Chip Stocks in Underdeveloped Stock Markets of South-Eastern Europe. *Economic analysis*, 48(1-2), 54-68.
- Gopalakrishnan, C., & Rajeswarikrishnan, D. S. (2013). Growth of BSE Listed Automobile Sector in India. *Life Science Journal*, 10(2s).
- Bhanawat, S. S. (2011). Impact of Financial Crisis on the Financial Performance of the Indian Automobile Industry. Available at SSRN 1956635.
- Rustagi, R. P. (2001). *Financial Management-Theory. Concepts and Problems*.
- <https://getmoneyrich.com/blue-chip-stocks-list-in-india/> accessed on November 12, 2019.
- [www.moneycontrol.com/stocks/marketinfo/netprofit/bse/index.html](http://www.moneycontrol.com/stocks/marketinfo/netprofit/bse/index.html) accessed on November 12, 2019.
- [www.economictimes.com](http://www.economictimes.com) , accessed on November 15, 2019.
- [www.investopedia.com](http://www.investopedia.com) , accessed on November 12, 2019.
- [www.money.rediff.com](http://www.money.rediff.com) , accessed on November 14, 2019.